



U.S. AGENCY FOR  
INTERNATIONAL  
DEVELOPMENT

March 21, 2000

MEMORANDUM FOR G/PHN/DAA, Duff G. Gillespie

FROM: OIG/A/PA, Dianne L. Rawl

SUBJECT: Audit of USAID's Management of the Central Contraceptive Procurement Project (Report No. 9-000-00-001-P)

This is our final report on the audit of USAID's management of the Central Contraceptive Procurement Project. We received your written comments on the draft report and, with the exception of the Annexes, we have included them in Appendix II.

This report contains four recommendations for your action. As stated in the draft report, because of the action taken during the audit, we consider Recommendation No. 1 closed. Regarding Recommendation Nos. 2, 3, and 4, your written comments identify comprehensive plans for addressing these recommendations. Therefore, we concur with the actions you have taken or plan to take to correct the weaknesses noted during our audit. Accordingly, we concur that management decisions have been reached on Recommendation Nos. 2, 3, and 4.

I want to express my appreciation for the cooperation and courtesies extended to my staff during this audit.

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## Background

USAID has continued to be recognized as a world leader in the population assistance programs in developing countries. Through the USAID strategic goal of stabilizing world population and protecting human health, USAID has recognized not only that investments in human resources are needed to promote sustainable development but also that rapid population growth and poor health impede efforts to achieve this goal. According to the USAID Center for Population, Health and Nutrition (the Center) Strategic Plan, family planning services continue to be the predominant focus of USAID's population assistance program and the Center continues to make disease prevention programs its first priority. One essential component to these USAID programs is providing contraceptives. To help meet its goals, over the last 31 years USAID has supplied over 14 billion contraceptives to developing countries.

To ensure effective management of USAID's contraceptive procurement process, in 1990 USAID began the Central Contraceptive Procurement Project (the Procurement Project). The primary purpose of the Procurement Project is to provide a mechanism for consolidated USAID purchases of contraceptives. The Contraceptives and Logistics Management Division (CLM) is responsible for managing this project.<sup>1</sup> At the time we began our audit, the Procurement Project had a project assistance completion date of December 31, 2005 and a life-of-project funding projection of over \$600 million. In calendar year 1998, USAID provided more than \$61 million of contraceptives to 67 developing countries through this centrally managed project.<sup>2</sup> Recipients included ministries of health, family planning organizations, disease prevention programs, and social marketing programs.

To accomplish day-to-day management of the Procurement Project activities, USAID operates an automated system called NEWVERN. This system tracks contraceptives from the point of manufacture through confirmation of receipt by the intended host country organization. The NEWVERN system also tracks the flow of funds from allocation to obligation and expenditure and is the source of all official USAID reports related to the Procurement Project. Another component of the NEWVERN system is its capability to interact with the freight-forwarder that transports contraceptives by air, land, and sea from various points of origin to their destination. This freight-forwarder also uses two warehouses located in Sterling, Virginia and Turku, Finland. In calendar year 1998, the freight-forwarder made 405 shipments of contraceptives on behalf of USAID.

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## **Audit Objective**

Our audit was part of our annual audit plan and was designed to answer the following question:

**Is the Bureau for Global Programs, Field Support and Research managing the Central Contraceptive Procurement Project effectively?**

Appendix I contains a discussion of the scope and methodology used in this audit.

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<sup>1</sup> CLM is a division within the Bureau for Global Programs, Field Support and Research; Center for Population, Health and Nutrition; Office of Population.

<sup>2</sup> During 1998, USAID provided seven types of contraceptives to developing countries: male condoms, intrauterine devices, oral pills, foaming tablets, NORPLANT<sup>®</sup> implants, Depo-Provera<sup>®</sup> injectables, and female condoms.

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## Audit Findings

### Is the Bureau for Global Programs, Field Support and Research managing the Central Contraceptive Procurement Project effectively?

We determined that the Bureau for Global Programs, Field Support and Research, through CLM, managed the Procurement Project effectively—except for the areas related to potential Year 2000 computer problems, permanently filling a team leader position, and documenting procedures. In addition, we noted that CLM could do more to plan for the growing contraceptive demand in the future.

In 1989, the Office of Inspector General (OIG) completed an audit of the USAID centrally funded contraceptive procurement activities.<sup>3</sup> During that audit the OIG identified operational weaknesses and made recommendations in the areas of management controls, procurement, funding, quality control, disposals and losses, and estimating needs. In our current audit, we followed up on these recommendations and found that USAID successfully implemented the recommendations and continued to improve the contraceptive procurement process.

Some of these enhancements include implementing the NEWVERN computer-based tracking system and establishing a quality testing program. This independent quality assurance monitoring is accomplished by an independent cooperating agency that tests the physical and chemical integrity of the contraceptives. This cooperating agency tests randomly selected contraceptives at its laboratory and provides results and recommendations to CLM on whether to accept the contraceptives. Although the U.S. Food and Drug Administration regulates contraceptive manufacturers, this cooperating agency also periodically assesses the contraceptive manufacturers' quality assurance programs to ensure compliance with Good Manufacturing Procedures. These changes and others like them have resulted in CLM operating a more efficient and effective central procurement system.

Although we did not find any major weaknesses in the management of the current Procurement Project, we found that more improvements could be made. Specifically, CLM needed to (1) take precautionary measures because of potential Year 2000 computer problems; (2) permanently fill the key position for managing contraceptive contracts and comply with the terms of a Participating Agency Service Agreement; and (3) document surcharge procedures related to recovering costs of managing the Procurement Project. While performing the audit, we also found CLM could do more to assist USAID offices and other donors plan for the growing contraceptive demand in the future. These issues are discussed in more detail below.

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<sup>3</sup> OIG, An Overview of the Centrally Funded Contraceptive Procurement Project No. 936-3018, Report Number 9-000-89-010, September 29, 1989.

## **Year 2000 Precautionary Measures Needed**

CLM had not followed guidance issued by the General Accounting Office (GAO) to assess the impact of potential failure of information systems and to develop business continuity and contingency plans for the Year 2000. CLM officials said that they had not taken these precautionary actions because they were not fully aware of the potential impact of Year 2000 problems and had not received direction or guidance from USAID management on Year 2000 initiatives. Without assessing the readiness of its operations and planning for its continuation in Year 2000, CLM had no assurance that recipient countries would receive their requested contraceptives in a timely manner.

In 1997, GAO issued guidance for federal agencies to assess the impact of information systems' failures on the business areas and processes, which included identifying systems supporting these areas.<sup>4</sup> GAO issued additional guidance in 1998 stating that agencies must have business continuity and contingency plans to reduce the risk of Year 2000 business failures.<sup>5</sup> Despite this guidance from GAO, CLM had not assessed its ability to continue the Procurement Project operations into the Year 2000, identified systems supporting its operations, or developed and tested a business continuity and contingency plan.<sup>6</sup> CLM officials had not taken these precautionary measures because they were not aware that the guidance existed and USAID management had not provided instructions on what action was needed to ensure operations continued in the Year 2000. Nonetheless, if CLM had assessed its operations and developed and tested a business continuity and contingency plan, CLM would have been able to conclude whether contraceptives could be manufactured, tested, and transported without interruption if Year 2000 computer problems emerged.

During our audit, we recognized the potential impact that Year 2000 computer problems could have on the Procurement Project operations. Therefore, we recommended that CLM officials ask their manufacturing and technical service providers to provide written assurances that the systems supporting their operations were ready for the Year 2000. This resulted in CLM requesting and receiving, written assurances from all of its manufacturers and technical service providers that the systems supporting their operations would continue without disruption in Year 2000.

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<sup>4</sup> GAO, Year 2000 Computing Crisis: An Assessment Guide, GAO/AIMD-10.1.14, September 1997.

<sup>5</sup> GAO, Year 2000 Computing Crisis: Business Continuity and Contingency Planning, GAO/AIMD-10.1.19, August 1998.

<sup>6</sup> The OIG testified on this issue before the Committee on International Relations, U.S. House of Representatives, on October 21, 1999.

As for developing a business continuity and contingency plan, CLM officials devised some procedures to manage shipments before the end of 1999.<sup>7</sup> However, in our opinion these procedures did not fully meet the GAO requirements of developing a plan to safeguard its ability to provide contraceptives and help to identify alternate resources and processes needed to continue operating in the Year 2000. Without this more elaborate plan, CLM had no assurance that its operations would continue without potential disruption caused by Year 2000 computer problems. Recognizing that the lack of Year 2000 contingency planning was an agency-wide problem, the OIG recommended in an audit report issued in December 1999 that USAID take necessary corrective action on an agency-wide basis.<sup>8</sup> Therefore, we did not make a similar recommendation, specific to CLM, in this report.

**Recommendation No. 1:** We recommend that the Bureau for Global Programs, Field Support and Research; Center for Population, Health and Nutrition request written assurances of Year 2000 readiness from manufacturers and technical service providers.

Because CLM took appropriate action on Recommendation No. 1 and received written responses from all manufacturers and technical service providers, we consider this recommendation closed.

**Key Position Needs to Be Filled  
and Agreement Terms Complied With**

The team leader position for the Procurement Project, a key position in managing the project's manufacturing and technical service contracts, became vacant nearly two years ago.<sup>9</sup> To ensure the continuing operation of the Procurement Project, CLM temporarily filled the team leader position in a manner that was contrary to USAID directives, as well as the terms of a Participating Agency Service Agreement (the Agreement) for another project. CLM officials told us that they made this temporary reassignment because no USAID employee had the skills and abilities to do the job and CLM could not hire from external sources due to the USAID hiring freeze. Unless CLM permanently fills the team leader position and complies with the terms of the Agreement, the success of two projects remain at risk—the Procurement Project and the Logistics Management Project.<sup>10</sup>

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<sup>7</sup> CLM devised some procedures that included (1) sending all 1999 air shipments by the first week of December so contraceptives would arrive before December 25 and (2) determining the Year 2000 readiness for docking and customs clearance in countries that will receive shipments after January 1, 2000.

<sup>8</sup> OIG, Audit of USAID's Efforts to Develop Year 2000 Contingency Plans, Report Number A-000-00-002-P, December 16, 1999.

<sup>9</sup> The team leader position became vacant in March 1998.

<sup>10</sup> The Logistics Management Project is designed to improve the management and operation of family planning programs in developing countries through the use of more effective logistics systems.

In 1991, CLM executed an Agreement with the Centers for Disease Control and Prevention (CDC) for the specific purpose of obtaining technical assistance for its Logistics Management Project. To meet a requirement of this Agreement, CDC transferred one of its employees to Washington to work on the Logistics Management Project. However, when the team leader position for the Procurement Project became vacant, CLM considered the team leader position to be so critical that it reassigned this CDC employee from the Logistics Management Project to temporarily fill the Procurement Project vacancy. Because of the urgent need to continue the procurement operation, CDC officials agreed to allow its employee to serve as the team leader on a short-term basis while also continuing to work on the Logistics Management Project. However, this ad hoc arrangement is contrary to USAID directives and the terms of the Agreement under which the CDC employee was originally brought to USAID.

According to Chapter E306 of the USAID Automated Directives System, USAID offices in Washington may use Participating Agency Service Agreements when the assistance to be provided is tied to a specific activity goal to be performed within a definite time frame. The directives further state that USAID officials shall certify that the Participating Agency has a unique or particular suitability to perform the desired technical assistance. Although CLM benefited from and reimbursed CDC for its employee's ad hoc services provided to the Procurement Project, CDC had not provided, nor had CLM received, the specialized logistics management assistance for which the Agreement was originally justified, executed, and funded. CLM officials said they had not filled the position with a USAID employee because they did not find a suitable internal candidate and were precluded from seeking external applicants due to the USAID hiring freeze.

Because the Procurement Project team leader position was a full-time position, the CDC employee had little time to provide the technical assistance that is critical for the success of the Logistics Management Project. CLM officials said the Procurement Project had not experienced any interruption in providing services to its customers during this ad hoc arrangement. However, if this working arrangement continues, we believe that CLM may not be able to reasonably meet the objectives of either the Procurement Project or the Logistics Management Project. Further, the success of both the Procurement Project and the Logistics Management Project remain at risk if CDC management should decide to terminate the Agreement, demand that CLM strictly adhere to Agreement terms, or decide that its CDC resources could be put to better use somewhere else.

**Recommendation No. 2:** We recommend that the Bureau for Global Programs, Field Support and Research; Center for Population, Health and Nutrition decide how the Central Contraceptive Procurement Project team leader position should be permanently filled and take appropriate action to implement that decision.

**Recommendation No. 3:** We recommend that the Bureau for Global Programs, Field Support and Research; Center for Population, Health and Nutrition abide by the terms of its Participating Agency Service Agreement with the Centers for Disease Control and Prevention for logistics management technical assistance or

justify and execute a mutually acceptable change in the agreement's scope of work.

### **Surcharge Procedures Need to Be Documented**

Contrary to internal control guidance issued by GAO,<sup>11</sup> CLM had not documented or published the procedures it used to establish, calculate, apply, or evaluate a surcharge developed to recover central procurement costs from missions and bureaus ordering contraceptives. CLM officials said they expected the procedures to change repeatedly so they had not documented or published these procedures. Unless CLM documents and publishes its surcharge procedures, the operating units using these CLM services will not have the assurances that the monies collected for the surcharge are properly accounted for.

In response to changes in the USAID budget allocation process and at the direction of the Bureau for Management, CLM developed a method to recover various non-contraceptive costs by applying a surcharge to orders of contraceptives placed by missions and bureaus. The surcharge was designed to cover the costs of maintaining the NEWVERN system, warehousing the contraceptives, and testing the quality of contraceptives and assessing the manufacturers' quality assurance practices. For 1999, CLM set the surcharge at 5.5 percent of the cost of contraceptives ordered and collected the funds at the time contraceptives were requested. The intent of this surcharge was to place the cost of operating the Procurement Project with its primary users—the USAID missions and bureaus.

According to GAO's Standards For Internal Controls In The Federal Government, all transactions and other significant events need to be clearly documented, and the documentation should be readily available for examination. GAO guidance further states that the documentation should appear in publications such as directives, policies, or operating manuals. CLM officials said they had not documented or published the procedures because the method to recover the costs continued to change until late 1998 and CLM fully expected to revise the method again in 1999.<sup>12</sup>

Without documented procedures, the USAID missions had not been fully informed of how the surcharge was established, calculated, applied, and evaluated, nor had they received assurance that the surcharge monies they paid were properly accounted for. In our opinion, documenting operational procedures is an integral part of any system and should be used to regulate and guide its operations. By documenting these procedures related to the surcharge, CLM might minimize operational problems, prevent errors and mismanagement, and allow CLM to be better equipped to manage changes for the future.

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<sup>11</sup> GAO, Standards For Internal Controls In The Federal Government, 1983.

<sup>12</sup> CLM developed the methodology for the surcharge in 1998, but did not begin to apply the surcharge to contraceptives until 1999.

**Recommendation No. 4:** We recommend that the Bureau for Global Programs, Field Support and Research; Center for Population, Health and Nutrition document and publish the procedures for establishing, calculating, applying, and evaluating the surcharge.

## **OTHER MATTERS**

### **CLM Should Help USAID Offices and Other Donors Plan for Growing Contraceptive Demand**

Within its population and health goal, USAID has two objectives that relate to contraceptives: (1) reduce unintended and mistimed pregnancies, and (2) reduce Human Immunodeficiency Virus (HIV) transmission and its impact. However, for the past three years, Congress has limited funding for USAID population assistance projects to \$385 million per year. Although USAID funding for contraceptives has remained stagnant, world demands for contraceptives are increasing and costs are predicted to nearly double in the next 10 years.<sup>13</sup>

Other international donors have been studying this emerging problem. For example, based on its study, the United Kingdom's Department for International Development (DFID) published a plan outlining its alternatives for the future. These options included mobilizing additional government resources; recovering some share of public expenditure through user fees; encouraging a shift to private sources; and reducing resource requirements by improving program efficiency, including local procurement of contraceptives at lower cost.<sup>14</sup> In addition, DFID determined that it was essential to continue to play a role in supplying subsidized contraceptives.

Although nearly 40 USAID missions had strategic objectives that related to reducing unintended and mistimed pregnancies, during our audit we found that none of the six USAID programming bureaus had developed a plan or strategy for addressing the predicted growth in demand for contraceptives. However, two of these bureaus had recognized the need to begin addressing this future challenge. For example, Bureau for Africa officials said that, although they had not completed a strategy, they had begun to explore alternatives for the future by meeting with CLM, other regional bureaus, and missions. The Bureau for Global Programs, Field Support and Research had also started to address this issue and was drafting an issue paper and a presentation on the topic of securing contraceptives for the future.

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<sup>13</sup> To illustrate, a recent study funded by USAID estimates that by the year 2010 contraceptive users in developing countries will increase from 122 million to 189 million and annual contraceptive costs will rise from \$190 million to \$322 million.

<sup>14</sup> In August 1998, United Kingdom's Department for International Development released a policy paper titled, "Supplying Subsidised [sic] Contraceptives." This paper offers an analysis of some of the economic issues related to the supply of subsidized contraceptives and aims to assist DFID in preparing its strategy for the supply of contraceptives.



These are clearly steps in the right direction. However, if CLM wanted to continue to actively seek ways to help USAID missions and bureaus anticipate and respond to the forecasted increase in contraceptives demand, CLM could develop guidance, alternative approaches, and new tools for USAID missions and bureaus seeking options and alternatives to USAID's current practices. It could also develop a long-term plan for working with other international donors and organizations on these issues.

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## **Management Comments and Our Evaluation**

PHN officials reviewed our draft audit report and agreed with all the findings and recommendations. As a result, management decisions have been reached on all four recommendations.

PHN's written response to our draft audit report is included in Appendix II, with the exception of the cited Annexes.



## Scope and Methodology

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### Scope

This report is based on our audit of the operations related to the Central Contraceptive Procurement Project that is managed by the Contraceptives and Logistics Management Division. At the time we started this audit, the Central Contraceptive Procurement Project had a project assistance completion date of December 31, 2005 and a life of project funding of over \$600 million. In calendar year 1998, USAID provided more than \$61 million of contraceptives to 67 developing countries through this centrally managed project. The audit was conducted from January through November 1999 at offices located in Washington, D.C.; Atlanta, GA; and Research Triangle Park, NC. We audited controls that were in place from March 1998 through November 1999. All work was done in accordance with generally accepted government auditing standards.

We began this audit as a survey to learn about the operations of the central contraceptive procurement project; to examine its current policies, procedures, and guidance for planning and monitoring the project; and to identify any potential operational weaknesses in the project. As a result of the survey, we narrowed our review to the USAID/Washington operations and those topics presented in the Audit Findings section of this report.

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### Methodology

To accomplish the audit objective, we reviewed project documents, made site visits to interview project officials, and observed the process of testing contraceptives. We reviewed the applicable laws, regulations, directives, and guidance from the Office of Management and Budget, General Accounting Office, and USAID. Our review of documents also included examining and analyzing project files, Resource Requests and Results Reports, financial statement and budget documents, audit reports, evaluations, independent studies, cooperative agreements, and a Participating Agency Service Agreement.

As appropriate, we analyzed the internal control system to assess how:

- contraceptives were procured;
- contraceptives were tested;
- contraceptives were maintained and secured by the freight forwarder;
- manufacturing and technical service providers assured operations were ready for Year 2000;
- the surcharge was established, calculated, applied, and evaluated; and
- contractors were fulfilling the contract or agreement terms.

We interviewed officials from USAID and Centers for Disease Control and Prevention, and contractor personnel from John Snow, Inc.; Panalpina, Inc.; and Family Health International. We also interviewed and met with officials from seven bureaus and offices: Bureau for Global Programs, Field Support and Research; Bureau for Africa; Bureau for Asia and the Near East; Bureau for Latin America and the Caribbean; Bureau for Europe and Eurasia; Bureau for Humanitarian Response; and Office of the General Counsel.

We also followed up on the 1989 audit report issued by the Office of Inspector General to determine how the seven recommendations related to management controls, procurement, funding, quality control, disposals and losses, and estimating needs were implemented.

## Management Comments



February 11, 2000

### INFORMATION MEMORANDUM

TO: OIG/A/PA, Dianne L. Rawl

FROM: DAA/G/PHN, Duff Gillespie *DG*

SUBJECT: Audit of USAID's Management of the Central  
Contraceptive Procurement Project (Report No. 9-000-00-00X-P)

### SUMMARY

This memorandum provides G/PHN's comments on the draft report on the audit of USAID's management of the Central Contraceptive Procurement (CCP) Project.

### DISCUSSION

It has been ten years since the last Inspector General's examination of the Agency's contraceptive procurement system. The 1989 audit resulted in significant changes and improvements in USAID's management of contraceptives in a number of areas including procurement, funding, quality assurance, management controls, product disposals and losses, and estimating contraceptive needs. It was appropriate and timely for the IG to reexamine the PHN Center's management of the Agency's central contraceptive procurement system. We welcome and concur with the IG's conclusion that "USAID successfully implemented the recommendations and continued to improve the contraceptive procurement process... These changes and others like them have resulted in CLM operating a more efficient and effective central procurement system."

We want to express our appreciation for the constructive contribution that your staff has made to our program through this audit. Ms. Susan Meche and her colleagues deserve commendation for their comprehensive understanding of a complex program, their constructive recommendations, and for their

productive working relationship with the staff of the Contraceptive and Logistics Management (CLM) Division responsible for managing the CCP portfolio. They were always courteous and constructive and made it clear that their desire was to help USAID in maintaining and enhancing an effective contraceptive assistance portfolio.

A summary of the PHN Center's response to each of the four recommendations and one suggestion follows while the five Annexes contain more detailed descriptions of the actions taken or planned by the Center to implement these recommendations.

**Recommendation No. 1: We recommend that the Bureau for Global Programs, Field Support and Research; Center for Population, Health and Nutrition request written assurances of Year 2000 readiness from manufacturers and technical providers.**

We concur with the IG's recommendation and appreciate their help in addressing this issue. The IG considers this recommendation to be closed because G/PHN/POP/CLM took appropriate action and received written responses for all manufacturers and service providers. (See Annex 1 for a copy of the letter G/PHN/POP/CLM sent to each vendor and the list of vendors from whom written responses have been received.) However, for the record, we wish to document the additional pro-active actions taken by G/PHN/POP/CLM to ensure that there were no disruptions in contraceptive deliveries or shipments due to Y2K difficulties. First, the Central Contraceptive Procurement (CCP) system is very robust by design. As a part of normal operations it is designed to handle (and regularly does) short disruptions, on the order of one to two months, due to a variety of causes. Any Y2K disruptions would have been handled no differently than those due to other causes. Second, G/PHN/POP/CLM staff spent considerable time ensuring that its systems and their partners' systems were ready as well as adjusting shipment schedules to field programs to minimize the risk of Y2K disruptions.

Third, G/PHN/POP/CLM received no guidance regarding the preparation of a "Business Continuity and Contingency Plan" until late in 1999. Once the requirement for a "Business Continuity and Contingency Plan" was clear, G/PHN/POP/CLM immediately developed and implemented a plan appropriate for CLM and CCP (see Annex 2). Fourth, G/PHN/POP/CLM and its freight-forwarding contractor have closely monitored all contraceptive deliveries and shipments that might be affected by Y2K problems. To date, no manufacturer has experienced any Y2K related disruptions that would delay delivery of contraceptives to USAID

and the freight forwarder has reported no Y2K related delays in contraceptive shipments to field programs.

**Recommendation No 2:** We recommend that the Bureau for Global Programs, Field Support and Research; Center for Population, Health, and Nutrition decide how the Central Contraceptive Procurement Project team leader position should be permanently filled and take appropriate action to implement that decision.

We concur with the IG recommendation that the CCP team leader position should be permanently filled and it is the Center's intention to fill this position with a Direct Hire USAID employee. The CCP team leader position requires highly technical public health expertise and a thorough understanding of the role contraceptive assistance plays in achieving the PHN strategic objectives of the Agency, the PHN Center and over forty Missions. Therefore, on February 8, 2000 the G Bureau requested approval from the Agency's Management Council to recruit from all sources, including outside USAID, to fill this critical position. (See Annex 3 for a copy of the Action memo from AA/G, Barbara Turner to M/HR, Linda Lion.) To facilitate the recruitment process, CLM is revising the position description for the CCP team leader to more accurately reflect the skills and responsibilities needed to serve diverse field programs and maintain effective management over the Agency's contraceptive assistance portfolio. The team leader for CCP must possess expertise and experience in international public health programs extensive knowledge of: (1) contraceptive methods, their specifications, and their role in international public health programs; (2) contraceptive quality assurance methods, especially methods related to condom quality; and (3) the contraceptive assistance needs of public health programs in developing countries. The PHN Center's goal is to have the CCP team leader position filled on a permanent basis by July 1, 2000 (See Annex 3 for the timetable in filling the CCP position).

**Recommendation No 3:** We recommend that the Bureau for Global Programs, Field Support and Research; Center for Population, Health, and Nutrition abide by the terms of its Participating Agency Services Agreement with the Centers for Disease Control and Prevention for logistics management assistance or justify and execute a mutually acceptable change in the agreements scope of work.

We concur with the IG recommendation that we either abide by the terms of the original scope-of-work for the CDC employee

detailed to G/PHN/POP/CLM or that we amend the agreement to reflect the current responsibilities of the detailee. The Center has developed a plan and initiated actions that will enable both parties to return to the original terms of the interagency agreement by the middle of 2000. It is our intention to fill the CCP team leader position with a qualified direct-hire public health professional. Once it is filled G/PHN/POP/CLM will no longer ask that the CDC employee temporarily detailed to G/PHN/POP/CLM perform the functions of this position. These actions should be sufficient to close the recommendation. However, in the event that it takes longer than anticipated to identify, recruit and place a qualified public health specialist to fill the direct hire CCP team leader position, the Center and CDC will revise the existing scope of work to enable the CDC employee to serve in this capacity through the end of the current agreement. G/PHN/POP/CLM has discussed this plan with CDC counterparts and both parties agree to incorporate the change as part of the next incremental funding action that CLM will initiate in May/June 2000.

**Recommendation No. 4: We recommend that the Bureau for Global Programs, Field Support and Research; Center for Population, Health, and Nutrition document and publish the procedures for establishing, calculating, applying, and evaluating the surcharge.**

The PHN Center concurs with the IG's recommendation on the need to document and disseminate the procedures for the contraceptive surcharge to other USAID operating units. CCP operates as a comprehensive approach to contraceptive procurement. In addition to the purchase of products and freight forwarding services, CCP also provides centrally managed warehousing, quality assurance service, and a comprehensive management information system (NEWVERN). These three activities represent system costs since they occur independently of product shipments that can be attributed directly to individual missions. For many years, CLM charged customers directly only for the cost of contraceptives and freight forwarding services and covered the related system (or overhead) costs with funding from the Office of Population. These procedures changed with the advent of the Field Support and Core funding system initiated by M/BUD in FY 1997. With the new funding system, Missions are expected to cover the "fully loaded" costs of services they receive from G/PHN including the system costs associated with operating CCP.

The system costs cover outlays for centrally managed warehousing, quality assurance services, and management



information system services (NEWVERN). In FY 1997, M/BUD and G/PHN/POP agreed that these system costs would be "taken off the top" of the Population budget and thus would not have to be born directly by Missions. However, beginning in FY 1998 M/BUD has required that the system costs be attributed directly to missions that make use of CCP. Thus, G/PHN/POP/CLM, in consultation with the Regional Bureaus, decided to allocate to each CCP customer one annual systems charge that would represent their fair share of total system costs based on their expected shipments while developing a system that would apportion these system costs to each actual shipment.

Beginning on January 1, 1999, the surcharge was implemented for all shipments. Under this new system, CLM determines a surcharge percent at the beginning of each calendar year based on actual system costs of the prior year. This surcharge is then applied to the value of every shipment made during the year. The size of the surcharge can vary from one year to the next depending on the actual system costs and the total value of the surcharge collected from all shipments. A more detailed description of the surcharge can be found in Annex 4 which has been incorporated into the CCP operating manual.

The annual CPT (Contraceptive Procurement Tables) guidance that G/PHN/POP/CLM publishes and disseminates to every mission now contains a detailed explanation of the CCP surcharge, how it is calculated, and the current surcharge percentage (see Annex 4 for a copy of the 2000 CPT guidelines). The CPT guidance is sent to each Mission in the second quarter of every fiscal year and allows Missions (and other customers) to determine their contraceptive requirements and calculate their funding needs. In the future, G/PHN/POP/CLM plans to explore the feasibility of implementing a Web-based CPT that contains a description of the key features of the CCP system including the surcharge. G/PHN/POP/CLM plans to include this Web feature as part of the follow-on contract to FPLM that will be competitively procured and awarded by September, 2000.

**Other Matters: CLM Should Help USAID Offices and Other Donors Plan for Growing Contraceptive Demand.**

G/PHN concurs with and supports the IG's observation that G/PHN/POP/CLM has an important role in assisting USAID Missions, Regional Bureaus and other partners plan for growing contraceptive demand. USAID and G/PHN/POP/CLM is recognized as a leader in the field of contraceptive assistance having

invested significant resources during the past two decades in providing technical assistance in improving the availability of contraceptives. The focus of these investments is to ensure that the right contraceptives are provided to the right places, at the right time, in the right quantities, and that they remain at the right quality and become available to programs at the right cost.

USAID has made considerable progress in building systems and training personnel to estimate contraceptive needs and manage contraceptives in a wide variety of service delivery programs. In the past, and in most places where USAID works, a major constraint in the family planning program was getting contraceptives from the central warehouse to the clients who wanted them. From a product management perspective the problem was basically one of inadequate distribution or more simple logistics. In most USAID-supported programs, this problem is being solved.

Guidance, additional approaches, and tools have been developed and are being used to correct many of the logistics deficiencies of USAID-supported family planning programs. For the program it supports, USAID knows how many of which contraceptives are needed and when, has the ability to order and procure and ship in a timely fashion, can ensure receipt and proper handling and adequate warehousing, and has improved systems for distribution to service delivery points where clients can access contraceptives. Nevertheless, improvements must still be made in both system performance and local sustainability before the job is finished. In addition, there clearly are exceptions where such progress has not been made, and where local policy makers and program managers have not embraced making the needed policy, regulatory, personnel, management and infrastructure changes.

To balance what is needed for the future, G/PHN/POP/CLM has prepared a new Results Package (RP) for logistics, DELIVER. G/PHN has recently approved this new RP and it will serve as the follow-on to FPLM. In addition to continuing to provide traditional logistics assistance the new RP includes a special focus on resource mobilization. One of the consequences of USAID's success in making family planning services widely available to clients who want to use them, is that many programs will face increasing difficulties in securing an adequate supply of contraceptives to meet future program needs. Addressing the problem requires guidance, approaches and policy tools designed

to increase resource mobilization to ensure contraceptive availability.

G/PHN/POP/CLM recognizes the importance of contraceptive availability and has initiated a number of activities designed to increase awareness and commitment within USAID, other donors, and developing country programs on this issue. G/PHN/POP/CLM has drafted an issues paper and an accompanying draft presentation has been very effective in focusing attention on the problem both within USAID and within the broader PHN community.

Additional actions are already planned by USAID and G/PHN/POP/CLM is working closely with other major donors and population organizations to increase awareness and commitment to contraceptive security. Within USAID, G/PHN/POP/CLM will finalize and disseminate the contraceptive security issues paper (March/April 2000); will hold a series of consultations with Regional Bureaus and PPC to develop and disseminate guidance to field missions on contraceptive security (March/April 2000); and will award an RFP that includes contraceptive resource mobilization as one of its priority mandates (September 2000).

There is growing evidence that other donors and foundations see contraceptive security as a major challenge to the future success of international family planning and reproductive health programs. For example, the Executive Director of the United Nations Population Fund (UNFPA) recently made a strong statement to its Governing Board supporting the importance of Reproductive Health Commodities, including contraceptives, and committing UNFPA to developing "a strategic approach, together with a number of partners and stakeholders, on how to avoid major shortfalls of contraceptive commodities in many developing countries." (See Annex 5) This is a very welcome development and we will work closely with UNFPA and other interested parties in the development and implementation of effective strategy to assure contraceptive security in developing country reproductive health programs.

